LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6274 | **DATE PREPARED:** Jan 24, 1999
BILL NUMBER: HB 1993 | **BILL AMENDED:**

SUBJECT: Elimination of local government property taxes.

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FUNDS AFFECTED: **X** **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill eliminates the authority of a political subdivision to impose an ad valorem property tax levy, except for a property tax levy imposed: (1) by a school corporation; (2) for police and fire services; and (3) for welfare. It eliminates the authority of a political subdivision to impose most special benefit taxes.

The bill limits annual increases in appropriations on a countywide basis to an adjustment factor computed on the basis of increases in population and inflation. It also establishes a debt limitation based on the amount of revenue available to a political subdivision.

This bill allows a county income tax council to impose a local option income tax on individuals and corporations. It provides an additional state distribution of 20% of the amount collected from the local option income tax to replace distributions for property tax replacement credits. The bill also distributes the additional revenue to political subdivisions that are prohibited from imposing a property tax levy.

Effective Date: Upon passage; July 1, 1999; January 1, 2000; March 1, 2001.

Explanation of State Expenditures: *Property Tax Replacement Credit*: PTRC would no longer be paid by the state on the property tax levy that is eliminated by this bill. However, a 20% PTRC would be paid on the replacement local option income tax. If the income tax generates more revenue over time than the property tax does, the state's PTRC liability would increase under this bill. However, if the tax revenue is substantially the same, then the state's liability would remain neutral.

Homestead Credit: The state would no longer pay homestead credits on the homeowners portion of the property tax levies eliminated by this bill. The savings is estimated at **$22 million in FY 2000, $44 million in FY 2001, and $33 million in FY 2002.**

Administrative Impacts of the Local Option Income Tax: The Department of Revenue (DOR) cost for administration, audit and collection of taxes is approximately $0.61 for every $100 collected. The State Budget Agency will be required to determine the annual certified distributions of the local option income tax revenues for all adopting counties. The Board of Tax Commissioners will be expected to determine the distribution of county option income tax revenues to all the civil taxing units within the adopting county. These responsibilities may require additional resources. These responsibilities may require additional resources. The departments listed above all receive state General Fund money for their operating expenditures.

Emergency Reserve Fund: This bill would require the State Auditor to make a one-time transfer in FY 2000 in an amount equal to 10% of the CY 1998 local appropriations from the state General Fund to the state Emergency Reserve Fund. The transfer would amount to $115 million.

Explanation of State Revenues:

Explanation of Local Expenditures: *Budgets*: The bill sets the CY 1999 budget as the base year budget. The expenditure limit for all other years would increase the base year amount by a combination of the change in inflation and the change in the unit's population.

These limits may be exceeded if a fiscal emergency is declared by at least a two-thirds vote of the fiscal body and the emergency declaration is approved by the State Tax Board. A unit must petition the State Tax Board to approve the declaration. The State Tax Board would hold a hearing on the matter. Payment of expenses directly related to eliminating property tax, including the cost of refinancing a bond and other bond related expenses would be treated as a fiscal emergency. Fiscal emergencies may not be included in the appropriation base in the base year.

By July 1 of each year, the State Tax Board would send a statement to each county auditor estimating the expenditure limit for each unit and computing the amount of money that is available to the units for the last six months of the current year and next budget year. The unit would prepare an estimated budget and give notice to the taxpayers. The county auditor would estimate the amount needed to pay poor relief and meet the costs of each TIF district that were payable from property taxes. The county tax adjustment board (TAB) would have final approval of the budget unless (1) the county auditor carries out the TAB's duties, (2) the TAB's action is subject to Tax Board review because of a fiscal emergency or the expenditure exceeds limits, or (3) an appeal to the Tax Board is initiated. The unit may make an additional appropriation without State Tax Board approval if the source of additional revenue is federal funds or gifts.

This bill would create the State Emergency Reserve Fund. Each unit would have a separate account in the fund. The fund would be administered by the State Budget Agency. Revenues that exceed the expenditure limit would be transferred to the unit's account in the fund. Each unit must maintain a balance of at least 10% of the money last budgeted by the unit. Units may receive money from the fund only to meet a fiscal emergency.

Bonding Limit: The bill prohibits a unit from becoming indebted in an amount that would require payments exceeding 20% of the unit's three year average revenue. A majority of the property owners could, in time of war, foreign invasion, or public calamity, petition the authorities to incur necessary obligations in excess of the limit.

Explanation of Local Revenues: *Property Tax Elimination*: Effective in CY 2000 this proposal would prohibit local governmental units from imposing property tax levies, except for welfare, police and fire, and school corporations' expenses. The statewide total gross property tax levy was about $5.2 billion in CY 1998. Of this amount, schools accounted for $2.8 billion, welfare amounted to $275 million, and police and fire levies were set at about $981 million. The CY 1998 levy for the funds covered by this provision was $1.15 billion. The CY 1998 levy and the five year average annual levy growth was used to estimate the levies and levy reduction under this bill. Gross levies would be reduced by approximately $1.21 billion in CY 2000, $1.23 billion in CY 2001, and $1.27 billion in CY 2002. After allowing for homestead and PTRC credits, **the net levy reduction is estimated at $998 million in CY 2000, $1.02 billion in CY 2001 and $1.08 billion in CY 2002**.

Local Option Income Tax: This bill establishes a new local option income tax that can be used to replace property taxes for local civil (non-school) units. The tax would be on individual and corporate adjusted gross income tax for county residents. The tax may be imposed, rescinded, increased, and reduced by the County Income Tax Council as established by this bill. There is no limit on the tax rate and it can be altered by any increment. The local income tax may be adopted and adjusted independently of all other local income taxes (CAGIT, COIT, CEDIT). There is no maximum combined rate when this and other local income taxes are imposed by the same county. Revenues collected with this local income tax may be used for any lawful purpose by the receiving civil unit.

If all 92 counties imposed a 1% local option income tax to be effective on July 1, 1999, the estimated revenue would equal $1,048 million from individuals and $50 million from corporations, for a total of $1,098 million. The average statewide local option income tax rate that would be needed to replace the entire net levy reduction amount is estimated at 0.91% in CY 2000.

Under this bill, a TIF area, established before January 1, 2000, is eligible for a distribution of money that would otherwise go to the taxing units in the allocation area to meet obligations.

State Agencies Affected: Department of Revenue, State Board of Tax Commissioners, State Budget Office, Auditor of the State, Treasurer of the State.

Local Agencies Affected: All local taxing units; Adopting Counties.

Information Sources: Local Government Database; State Revenue Forecast.